

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

RIVER ROUGE HOUSING COMMISSION

Financial Statements

June 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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As management of the River Rouge Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the River Rouge Housing Commission's financial activities for the FYE 6/30/04. This discussion and analysis letter of the River Rouge Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities. The accompanying Financial Data Schedule reports these results in more detail, program by program. The Commission reports all its activities and programs using the Enterprise Fund type model.

HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

#### Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 6/30/04:

	<u>FYE</u> <u>6/30/04</u>	<u>FYE</u> <u>6/30/03</u>	<u>Change</u>
Public Housing Operating Subsidy	553,868	560,946	(7,078)
Capital Fund Program Grants	680,312	698,686	(18,374)
Sec. 8 Housing Choice Voucher Subsidy	788,090	735,515	52,575
FFY 2001 Drug Elimination Program	0	50,970	(50,970)
ROSS Grant	0	38,479	(38,479)

Please note that HUD subsequently eliminated the Drug Elimination Program grants after FFY 2001. Although the ROSS grant programs are still being offered, we did not receive another ROSS grant during FYE 6/30/04.

The following represents changes in the Asset section of the Balance Sheet:

	<u>FYE</u> <u>6/30/04</u>	<u>FYE</u> <u>6/30/03</u>	<u>Change</u>
Cash	216,840	668,757	(451,917)
Tenants Accounts Receivable	47,378	24,129	23,249
HUD Accounts Receivable	150,201	78,195	72,006
Investments	0	0	0
Fixed Assets, Net of Depreciation	6,196,842	6,295,042	(98,200)
Total Net Assets (Equity)	6,323,164	6,661,588	(338,424)

Cash decreased for several reasons, the primary of which are:

1. The Operating Loss sustained by the Public Housing program in its day-to-day operations of approximately \$243,000 (statement attached).
2. Cash also decreased due to the reduction in Liabilities (excluding Inter-program due to amounts) from \$451,176 at 6/30/03 to \$352,660 at 6/30/04, a reduction of \$98,516.
3. The former Executive Director retired in August 2003 and the final payments as a result of this retirement totaled \$80,342.
4. HUD Accounts Receivable increased; we received most of this cash due us as of 6/30/04 in July and August 2004.

Although Fixed Assets increased by \$462,799, this was more than offset by depreciation charges of \$561,000, resulting in the net decrease stated in the above table.

Capital Projects that increased Fixed Assets were all funded out of the Capital Fund Programs. These projects include:

1. Vehicle, computer, and administrative equipment purchases
2. Appliances for dwelling units
3. A&E Fees
4. Comprehensive improvements at MI 8-4, including upgrades and/or replacements of: doors, security systems, intercom systems, roofs and soffits, and smoke detectors.

The decrease in Total Net Assets mirrors the decreases in the other categories as stated above.

#### Entity-Wide Operational Highlights:

The River Rouge Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE</u> <u>6/30/04</u>	<u>FYE</u> <u>6/30/03</u>
Low Rent Public Housing	300	300
Sec. 8 Housing Choice Voucher	114	114

During FYE 6/30/04, River Rouge Housing Commission maintained a lease-up rate of 98.9% in its Public Housing Program and a lease-up rate of 99.3% in its Section 8 program. These lease-up rates are well in excess of HUD guidelines.

General Fund Budgetary Highlights:

The Commission approved an Operating budget for fye 6/30/04. We had some individual line item budget overruns by 6/30/04, although the total expenses only exceeded the approved budget by 1.2%. Actual results are as follows:

RIVER ROUGE HOUSING COMMISSION  
OPERATING INCOME STATEMENT  
FYE 6/30/04

Approved Budget	<u>INCOME</u>	Actual
468,000	Dwelling Rental	417,492.55
0	Excess Utilities	0.00
0	Non-Dwelling Rent	250.00
5,000	Interest Earned	1,458.27
10,000	Other Income	9,589.70
	Approved Operating	
553,868	Subsidy	553,868.00
0	CFP 1406 Operations	<u>14,604.00</u>
<b>1,036,868</b>	<b>Total Income</b>	<b>997,262.52</b>

	<u>EXPENSES</u>	
135,250	Administrative Salaries	133,272.06
	Consultants	
	Compensated Absences	(39,496.42)
5,000	Legal	8,251.25
25,000	Travel	18,545.51
19,185	Accounting Fees	19,410.00
2,350	Audit Fees	2,250.00
<u>51,000</u>	Other Admin. Expenses	<u>57,158.55</u>
<b>237,785</b>	<b>Total Admin. Expense</b>	<b>199,390.95</b>

	Tenant Services	
0	Salaries	0.00
<u>7,475</u>	Tenant Services - Other	<u>1,596.65</u>
<b>7,475</b>	<b>Total Tenant Serv. Exp.</b>	<b>1,596.65</b>

100,000	Water	89,808.58
17,000	Electricity	19,872.64
<u>12,000</u>	Gas	<u>9,941.66</u>
<b>129,000</b>	<b>Total Utilities Expense</b>	<b>119,622.88</b>

0	Maintenance Wages	0.00
30,000	Materials	19,077.35
<u>564,000</u>	Contract Costs	<u>530,526.81</u>
<b>594,000</b>	<b>Total Maint. Expense</b>	<b>549,604.16</b>

105,000	Insurance	106,493.43
0	PILOT	0.00
0	Terminal Leave Payments	80,342.29
139,760	Employee Benefits	146,094.51
<u>4,000</u>	Collection Losses	<u>27,091.03</u>
<b>248,760</b>	<b>Total General Expenses</b>	<b>360,021.26</b>
	Extraordinary	
0	Maintenance	0.00
0	Casualty Losses	0.00
<u>8,700</u>	Depreciation Expense *	<u>10,179.40</u>
	<b>Total Operating</b>	<b>1,240,415.3</b>
<b>1,225,720</b>	<b>Expenses</b>	<b>0</b>
		<b>(243,152.78</b>
<b>(188,852)</b>	<b>Operating Income/Loss</b>	<b>)</b>

\* - Depreciation expense as stated above represents only depreciation charges attributable to cumulative capital expenditures made out of the Operating Budget.

#### *Revenues:*

River Rouge Housing Commissions primary revenue sources are subsidies and grants received by HUD. For FYE 6/30/04, revenue generated by the Commission accounted for \$429,575 (or 17.5% of total revenue), while HUD contributions accounted for \$2,022,270 (or 82.5% of total revenue). Any increase in commission-generated revenue is constrained by a myriad of HUD rules and regulations, most notably those which pertain to the setting of tenant rental rates. Therefore, the Commission is inherently dependent upon HUD for the bulk of revenue.

#### *Expenses:*

Although total expenses only exceeded the approved budget amount by 1.2%, we had several line-item overruns. Details are as follows:

	Actual	Budget	Variance
Legal Fees	8,251	5,000	3,251
Accounting Fees	19,410	19,185	225
Other Administrative Expenses	57,159	51,000	6,159
Electricity	19,873	17,000	2,873
Insurance	106,493	105,000	1,493
Severance Payments	80,342	0	80,342
Employee Benefits	146,095	139,760	6,335
Collection Losses	27,091	4,000	23,091

- With regard to Legal, we were negotiating a contract with the new Executive Director which took a much longer time to resolve than anticipated; we were sued by several tenants alleging civil rights abuses.

- Accounting Fees increased due to extra service requested of the Fee Accountant.
- Other Administrative Expenses increased due primarily to increases in Phone expense (new lines and DSL installed) and office supplies purchases.
- Electricity increased due to both rates and consumption.
- Severance Payments were not budgeted for in error; the Commission was, however, aware of the cost before the payments were made and approved the payments.
- Employee Benefits increased due to rate increases and changes in personnel.
- Collection Loss: With the change in Executive Directors, some priorities have changed. We are now charging back to tenants much more than had been charged previously. These charges primarily consist of utility over-use charges and charges for work orders (when appropriate). We are also charging tenants for damages to the unit upon termination of tenancy. These have significantly increased the TAR, and therefore, the charge to Collection Loss.

Unfortunately, HUD funding has been unable to keep up with the ever-increasing operating costs. For instance, we have sustained a 201% increase in property & liability insurance since 9/11/01, going from \$33,530 in 2001 to \$101,000 in 2004 while HUD Operating Subsidy increased only 7.2% for the same time period (\$516,505 for FYE 6/30/02 to \$553,868 for FYE 6/30/04). Increases in Health Insurance premiums have skyrocketed as well.

#### Commission's Position

We were awarded an additional 135 units of Section 8 Vouchers (increasing our program by more than 100%) as of 8/1/04. We made some personnel changes and have not had to hire any more employees to run the program. We anticipate that the added revenue from these new units will significantly affect the Commission's bottom line positively. We are also now routinely budgeting 20% of our Capital Fund Program grant revenue for use as Operating Revenue. The employee layoffs mentioned previously were employees charged against Capital fund Programs; the elimination of their positions partially offsets the 20% Operations charge. Even though this limits our CFP capital expenditures, we feel that we must utilize this funding source at this time.

With these efforts in place, the River Rouge Housing Commission expects to be able to provide safe, sanitary and decent housing for the low income elderly and families of their community for years to come.

Sincerely,

RIVER ROUGE HOUSING COMMISSION  
Miranda White  
Executive Director

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

Board of Commissioners  
River Rouge Housing Commission  
180 Visger Road  
River Rouge, Michigan 48218

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the River Rouge Housing Commission as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the River Rouge Housing Commission as of June 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Required Supplemental Information**

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### **Combining Financial Statements**

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

January 26, 2005

RIVER ROUGE HOUSING COMMISSION  
Combined Statement of Net Assets  
June 30, 2004

**ASSETS**

**C-3031**

CURRENT ASSETS

Cash	\$	216,840	
Accounts Receivable, net of allowance for doubtful accounts 31,039)		16,339	
Accounts Receivable- Other		214,634	
Prepaid Expenses		31,169	
Inter Program due from		<u>136,917</u>	
 Total Current Assets			\$ 615,899

NON CURRENT ASSETS

Land	\$	341,343	
Buildings		3,441,197	
Furniture, Equipment- Dwellings		118,738	
Furniture, Equipment- Administrative		194,376	
Construction in Progress		7,135,615	
Accumulated Depreciation		<u>(5,034,427)</u>	
 Total Non Current Assets			<u>6,196,842</u>

<u>TOTAL ASSETS</u>	\$	<u>6,812,741</u>
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RIVER ROUGE HOUSING COMMISSION  
Combined Statements of Net Assets  
June 30, 2004

LIABILITIES

C-3031

CURRENT LIABILITIES

Accounts Payable	\$	120,250	
Accrued Liabilities		136,106	
Accrued Compensated Absences		4,512	
Tenants Security Deposit		47,343	
Deferred Revenue		3,838	
Inter-Program due to		<u>136,917</u>	
<u>Total Current Liabilities</u>	\$		448,966

NONCURRENT LIABILITIES

Compensated Absences-noncurrent		<u>40,611</u>	
<u>Total Liabilities</u>	\$		489,577

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	6,196,842	
Unrestricted Net Assets		<u>126,322</u>	
<u>Total Net Assets</u>			<u>6,623,164</u>
<u>TOTAL LIABILITIES &amp; NET ASSETS</u>	\$		<u>6,812,741</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION  
Combined Statement of Revenue, Expenses, and Changes in Net Assets  
For the year ended June 30, 2004

REVENUE

Tenant Rental Revenue	\$ 417,493	
HUD Grants	2,022,270	
Interest Income	1,458	
Other Income	<u>10,624</u>	
<u>Total Revenue</u>		\$ 2,451,845

EXPENSES

Administrative	\$ 506,596	
Tenant Services	100,695	
Utility Expenses	119,624	
Ordinary Maintenance	565,128	
General Expenses	<u>213,926</u>	
<u>Total Expenses</u>		<u>1,505,969</u>
<u>Excess (Deficiency) of Revenues over Expenses</u>		\$ 945,876

OTHER SOURCES & (USES)

Housing Assistance Payments	\$ (723,300)	
Depreciation Expenses	<u>(561,000)</u>	
<u>Total Other Sources (Uses)</u>		<u>(1,284,300)</u>
<u>Change in Net Assets</u>		\$ (338,424)
Total Net Assets- Beginning		<u>6,661,588</u>
Total Net Assets- Ending		\$ <u>6,323,164</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended June 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 394,244
Payments to Suppliers	(2,054,092)
Payments to Employees	(363,621)
HUD Grants	2,022,270
Other Receipts (Payments)	<u>12,082</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>10,883</u>

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(462,800)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (451,917)
Balance- Beginning of Year	<u>668,757</u>
Balance- End of Year	\$ <u>216,840</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (338,424)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	561,000
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(142,654)
Prepaid Expenses	(29,477)
Interfund Due From	19,769
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(55,132)
Accrued Liabilities	(6,106)
Compensated Absences	21,592
Security Deposits	(520)
Deferred Revenue	604
Interfund Due To	<u>(19,769)</u>
Net Cash Provided by Operating Activities	\$ <u>10,883</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION  
Notes to Financial Statements  
June 30, 2004

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

River Rouge Housing Commission, River Rouge, Michigan, (Commission) was created by ordinance of the city of River Rouge. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 8-1, 4	Low rent program	300 units
MI 28V 008	Section 8 Vouchers	114 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. The Financial Data Schedule lists all the programs of the Reporting Entity including component units should they exist, as defined above. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not interfere with Government Accounting Standards Board, (GASB) pronouncements.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Notes to Financial Statements- continued

**Budgetary data-**

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

**Assets, Liabilities, and Net Assets-**

**Deposits & Investments**

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

**Cash Equivalents**

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

**Due To and Due From Other Funds**

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

**Fixed Assets**

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15-40 years
Equipment	3-10 years

Notes to Financial Statements- continued

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 216,640
Petty Cash	<u>200</u>
Financial Statement Total	\$ <u>216,840</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 216,640	\$	\$	\$ 216,640	\$ 216,640
Petty Cash	<u>200</u>			<u>200</u>	<u>200</u>
Total Cash	\$ <u>216,840</u>	\$	\$	\$ <u>216,840</u>	\$ <u>216,840</u>

Note 3: Accounts Receivable (net)

Accounts receivable (net) consists of the following:

Accounts Receivable- HUD	\$ 150,801
Accounts Receivable- Miscellaneous	1,254
Accounts Receivable- MHCCRA Insurance	<u>63,833</u>
Financial Statement Total	\$ <u>214,634</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ <u>31,169</u>
-------------------	------------------

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 341,343	\$	\$	\$ 341,343
Buildings	3,441,197			3,441,197
Furniture & Equipment-Dwellings	63,780	54,958		118,738
Furniture & Equipment-Admin	159,581	34,795		194,376
Leasehold Improvements	<u>6,762,568</u>	<u>373,047</u>		<u>7,135,615</u>
	\$10,768,469	\$ 462,800	\$	\$11,231,269
Less Accumulated Depreciation	<u>4,473,427</u>	<u>561,000</u>		<u>5,034,427</u>
	<u>\$ 6,295,042</u>	<u>\$ (98,200)</u>	<u>\$</u>	<u>\$ 6,196,842</u>

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ 88,032
Accrued Liabilities- Other	2,100
Accrued Utilities	<u>45,974</u>
Financial Statement Total	<u>\$ 136,106</u>

Note 7: Retirement.

The Commission participates in the pension plan for the City of River Rouge. The Commission contributes a percentage of eligible employees wages to a qualified pension plan. Statistics of the plan and statistical data are contained in a separate report provided by the city.

Note 8: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 9: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 10:Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 24,388,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

# River Rouge Housing Commission

30-Jun-04

MI008

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>ASSETS:</b>				
	<b>CURRENT ASSETS:</b>				
	Cash:				
111	Cash - unrestricted	160,995	55,845	-	216,840
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	160,995	55,845	-	216,840
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects		600		600
122	Accounts receivable - HUD other projects	55,271	13,756	81,174	150,201
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	63,833			63,833
126	Accounts receivable- tenants - dwelling rents	47,378			47,378
126.1	Allowance for doubtful accounts - dwelling rents	(31,039)			(31,039)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful accounts	135,443	14,356	81,174	230,973
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	31,169			31,169
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	136,917	-	-	136,917
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	464,524	70,201	81,174	615,899
	<b>NONCURRENT ASSETS:</b>				
	Fixed assets:				
161	Land	341,343			341,343
162	Buildings	3,441,197			3,441,197
163	Furniture, equipment & machinery - dwelling	63,780	-	54,958	118,738
164	Furniture, equipment & machinery - administration	159,581	-	34,795	194,376
165	Leasehold improvements	6,332,934		802,681	7,135,615
166	Accumulated depreciation	(4,996,354)	-	(38,073)	(5,034,427)
160	Total fixed assets, net of accumulated depreciation	5,342,481	-	854,361	6,196,842
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	5,342,481	-	854,361	6,196,842

River Rouge Housing Commission		30-Jun-04	MI008		
	Combining Balance Sheet	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
190	<b>TOTAL ASSETS</b>	5,807,005	70,201	935,535	6,812,741

# River Rouge Housing Commission

30-Jun-04

MI008

	Combining Balance Sheet	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	119,350	900		120,250
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	88,032	-		88,032
322	Accrued compensated absences	4,512			4,512
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	47,343			47,343
342	Deferred revenues	3,838	-		3,838
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	2,100			2,100
346	Accrued liabilities - other	45,974			45,974
347	Inter-program - due to	-	55,743	81,174	136,917
310	TOTAL CURRENT LIABILITIES	311,149	56,643	81,174	448,966
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	40,611			40,611
350	TOTAL NONCURRENT LIABILITIES	40,611	-	-	40,611
300	TOTAL LIABILITIES	351,760	56,643	81,174	489,577
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	5,342,481	-	854,361	6,196,842
	Reserved fund balance:				-
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	112,764	13,558		126,322
513	TOTAL EQUITY	5,455,245	13,558	854,361	6,323,164

River Rouge Housing Commission		30-Jun-04	MI008		
	Combining Balance Sheet	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
600	<b>TOTAL LIABILITIES AND EQUITY</b>	5,807,005	70,201	935,535	6,812,741

## River Rouge Housing Commissior

30-Jun-04

MI008

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	<b>REVENUE:</b>	-	-		
703	Net tenant rental revenue	417,493			417,493
704	Tenant revenue - other	-			-
705	Total tenant revenue	417,493	-	-	417,493
706	HUD PHA grants	553,868	788,090	680,312	2,022,270
708	Other government grants				-
711	Investment income - unrestricted	1,458	-	-	1,458
712	Mortgage interest income				-
714	Fraud recovery		268		268
715	Other revenue	9,840	516	-	10,356
716	Gain or loss on the sale of fixed assets	-			-
720	Investment income - restrictec				-
700	<b>TOTAL REVENUE</b>	982,659	788,874	680,312	2,451,845
	<b>EXPENSES:</b>				
	Administrative				
911	Administrative salaries	133,272	46,394	62,057	241,723
912	Auditing fees	2,250	-		2,250
913	Outside management fees				-
914	Compensated absences	(39,497)			(39,497)
915	Employee benefit contributions- administrative	146,094	16,500	-	162,594
916	Other operating- administrative	103,366	9,931	26,229	139,526
	Tenant services				
921	Tenant services - salaries			99,099	99,099
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	1,596			1,596
	Utilities				
931	Water	89,809			89,809
932	Electricity	19,873			19,873
933	Gas	9,942			9,942
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	-			-
942	Ordinary maintenance and operations - materials & c	19,077		3,722	22,799
943	Ordinary maintenance and operations - contract cost	530,527		11,802	542,329
945	Employee benefit contributions- ordinary maintenanc	-			-
	Protective services				

River Rouge Housing Commissior

30-Jun-04

MI008

	Combining Income Statement	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
951	Protective services - labor				-

## River Rouge Housing Commissior

30-Jun-04

MI008

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
952	Protective services- other contract costs				-
953	Protective services - other				-
955	Employee benefit contributions- protective services				-
	General expenses				
961	Insurance premiums	106,493			106,493
962	Other General Expenses	-			-
963	Payments in lieu of taxes	-			-
964	Bad debt - tenant rents	27,091			27,091
965	Bad debt- mortgages				-
966	Bad debt - other				-
967	Interest expense				-
968	Severance expense	80,342			80,342
969	<b>TOTAL OPERATING EXPENSES</b>	1,230,235	72,825	202,909	1,505,969
970	<b>EXCESS OPERATING REVENUE OVER OPERATING EXPENSES</b>	(247,576)	716,049	477,403	945,876
971	Extraordinary maintenance	-			-
972	Casualty losses - non-capitalized	-			-
973	Housing assistance payments		723,300	-	723,300
974	Depreciation expense	522,927		38,073	561,000
975	Fraud losses				-
976	Capital outlays- governmental funds	-			-
977	Debt principal payment- governmental funds				-
978	Dwelling units rent expense				-
900	<b>TOTAL EXPENSES</b>	1,753,162	796,125	240,982	2,790,269
	<b>OTHER FINANCING SOURCES (USES)</b>				
1001	Operating transfers in (out)	14,604		(14,604)	-
1002	Operating transfers out	-		-	-
1003	Operating transfers from/to primary government			-	-
1004	Operating transfers from/to component unit				-
1005	Proceeds from notes, loans and bonds				-
1006	Proceeds from property sales				-
1010	<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	14,604	-	(14,604)	-
1000	<b>EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER TOTAL EXPENSES</b>	(755,899)	(7,251)	424,726	(338,424)

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3031 Operating Subsidies	\$ <u>553,868</u>
* <u>CFDA 14.871 Housing Assistance Program</u>	
C-3131 Section 8 Housing Choice Program	\$ <u>788,090</u>
* <u>CFDA 14.872 Capital Projects Funds</u>	
C-3031 Capital Projects Program	\$ <u>680,312</u>
	\$ <u>2,022,270</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 24,388,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders:	
by the State of Michigan	Coverage's required

\*Connotes Major Program Category

Status of Prior Audit Findings  
June 30, 2004

The prior audit of the River Rouge Housing Commission for the period ended June 30, 2003, did not contain any audit findings.

Report on Compliance Applicable with Requirements to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133  
June 30, 2004

Compliance

I have audited the compliance of River Rouge Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. River Rouge Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of River Rouge Housing Commission's management. My responsibility is to express an opinion on River Rouge Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about River Rouge Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of River Rouge Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Tenant Accounting Discrepancies	04-2	Eligibility
Excessive Tenant Accounts		
Receivable	04-3	Program Income
Credit Card Policy	04-4	Activities allowed or unallowed
Section 8 Housing Choice Vouchers:		
Tenant Accounting Discrepancies	04-1	Eligibility

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control over Compliance

The management of River Rouge Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered River Rouge Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 26, 2005

Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards  
June 30, 2004

I have audited the financial statements of River Rouge Housing Commission, River Rouge, Michigan, as of and for the year ended June 30, 2004, and have issued my report thereon dated January 26, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether River Rouge Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered River Rouge Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

January 26, 2005

RIVER ROUGE HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
June 30, 2004

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Program	X	
Capital Projects	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted \_\_\_\_\_ Yes        X No

Reportable condition(s) noted \_\_\_\_\_ Yes        X No

Non Compliance material to financial statements noted \_\_\_\_\_ Yes        X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted \_\_\_\_\_ Yes        X No

Reportable condition(s) noted        X Yes        No

Non Compliance material to financial statements noted \_\_\_\_\_ Yes        X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	04-2; 04-3; 04-4
Housing Assistance Program	Yes	None	04-1
Capital Projects Funds	Yes	None	N/A

Schedule of Findings, Recommendations and Replies  
June 30, 2004

The following finding of the River Rouge Housing Commission, for the year ended June 30, 2004, were discussed with the Director, Ms. Miranda White, in an exit interview conducted January 26, 2005.

Finding 04-1: Tenant Accounting Discrepancies- Section 8 Housing Choice Program

Seven tenant files were tested; 3 used incorrect income in the rent calculation.

Recommendation

The Commission has verified income through third party income verification processes, however, the above discrepancies were the result of input errors of the data; for example, entering a rate of \$ 10.00 vs the \$ 10.30 as stated on the income verification documentation.

I recommend the Commission implement review processes of the data entered into the software to insure that the data reflects the results of the verification process.

Reply

We will comply with the recommendation of implementing a review and verification of system data that takes place during the annual rectification process of all Section 8 Voucher holders. Staff will utilize the HUD's EIV system and TASS to clarify discrepancies.

A review of 10 tenant files revealed the following discrepancies:

None contained required citizenship forms; none included the rent choice form, one used the incorrect income in the rent computation.

#### Recommendation

The above discrepancies represent a lack of knowledge concerning the documentation necessary in the tenant files; once the staff has training and understands the documents required, they have always complied in the past.

I recommend the Commission obtain the proper training for the staff and implement a process to insure that the proper forms are included in the tenant files.

#### Reply

Staff has been trained in Rent Integrity Monitoring and the Upfront income Verification process. The necessary knowledge along with Application and Continued Occupancy policies and procedures have been resolved by the Commission to aid staff in proper rent calculations and file documentation records. Staff has secured approval and access to HUD's on line systems. The necessary citizenship form and rent choice form has been incorporated into the annual rectification process.

The Commission's tenant accounts receivable has doubled since the previous year; the average outstanding balance is \$ 158.; HUD prescribes an average of \$ 15 per unit to be reasonable.

#### Recommendation

The Commission's effort to collect tenant accounts receivable has not resulted in an acceptable level.

The Commission has aggressively sought to charge for damages, other charges, and previously unreported income from tenants, however, has failed to enforce timely collections; repayment agreements are going uncollected.

I recommend the Commission continue to charge for damages, but enforce existing repayment agreements and collect accounts receivables in a more timely manner.

#### Reply

Lack of staff tenant accounting software system knowledge and the transition period with a new Executive Director has prolonged the process of responding timely to collections. Operating fund shortfalls and Funding restraints along with a staff shortage attributes to not having the proper attention paid to accounts receivables and accounts payable. Staff is working with the software company Housing Data Systems for repayment agreements and enforcement efforts. The current process is manual and with automation and a staff person to be responsible for the process it will be more effective. We are in need a part-time person whose sole role will be to responsibility for Accounts Receivable. The staff member who had fragmented bookkeeper duties was responsible for primarily generating monthly reports, preparing court documents and typing checks. With the lay-off of 3 staffers in November, 2004 we have been hindered in properly addressing this matter. We do not have adequate staff is not available to properly enforce timely collections and repayment agreements. The responsibilities are fragmented at best but we are working to correct the situation through cross-training of remaining staff.

The Commission has a credit card; an employee charged personal items on the card and has subsequently repaid the charges. The employee did not make the purchases with any deception of the charge, but thought it was acceptable to make personal charges and repay the Commission for those charges.

#### Recommendation

The Commission has to adopt a policy concerning the use of the credit card; this is requirement of the State of Michigan, Public Act (PA) 196 of 1995 Michigan Compiled Law (MCL) 129.241. The policy should restrict the use of the card to authorized individual's and prohibit personal charges.

In addition to the requirements of the State, using the Commission credit card for personal charges is in violation of the following:

- Annual Contributions Contract Sec. 313. Covenant Against Conveyance or Encumbrance.
- Office of Management and Budget (OMB) circulars:
  - A-87 *Cost Principles for State, Local, and Indian Tribal Governments*
  - A-122 *Cost Principles for Non Profit Organizations*
  - A-133 *Audits of States, local Governments, and Non Profit Organizations*

The OMB circulars all have a reoccurring theme, the transaction must be ordinary and necessary in the conduct of the federal grant or award; personal charges on the Commission credit card are not ordinary or necessary in the conduct of the federal program; even if reimbursed timely. Such activities represent an abuse of the Commission's credit and could constitute a loan; I recommend the practice of using the Commission's credit card for personal use be discontinued immediately.

#### Reply

The practice was ceased once it was brought to the attention of staff that this is not an acceptable practice. A credit card policy will be established to clearly address all protocol and credit card use issues along with what is acceptable documentation and the authorizations necessary for purchases on credit cards. The Commission will adopt a policy concerning the use of credit card as required by the State of Michigan, Public Act (PA) 196 of 1995 Michigan Compiled Law (MCL) 129.241. The policy should restrict the use of the card to authorized individuals and prohibit personal charges.